The Clear Skies Act of 2003

North Carolina and Clear Skies

Highlights of Clear Skies in North Carolina

- North Carolina's Clean Smokestacks Act will substantially reduce emissions of SO_2 and NO_x in the State.
- Clear Skies builds on North Carolina's Clean Smokestacks Act to achieve additional emission reductions in the state, particularly for mercury; an additional 17% reduction in NO_x and 43% reduction in mercury by 2020 due to Clear Skies. Clear Skies also achieves substantial emissions reductions in neighboring states, which the Clean Smokestacks Act cannot accomplish.
- By 2020, North Carolina would receive approximately $5.8 billion in annual health benefits from reductions in fine particle and ozone concentrations alone due to Clear Skies (an alternative estimate projects $1 billion in health benefits in North Carolina). This includes 700 fewer premature deaths (400 under the alternative estimate) and 800 fewer hospitalizations/emergency room visits for asthma.
- North Carolina would receive environmental benefits, including reductions in acid deposition that will benefit forests and streams in the Appalachian Mountains and reductions in nitrogen deposition that will benefit the state's coastal waters.
- Clear Skies does not significantly impact electricity prices. With or without Clear Skies, electricity prices in the electricity supply region that includes North Carolina are expected to remain below 2000 prices.

Clear Skies: An Innovative Approach to Improving Human Health and the Environment

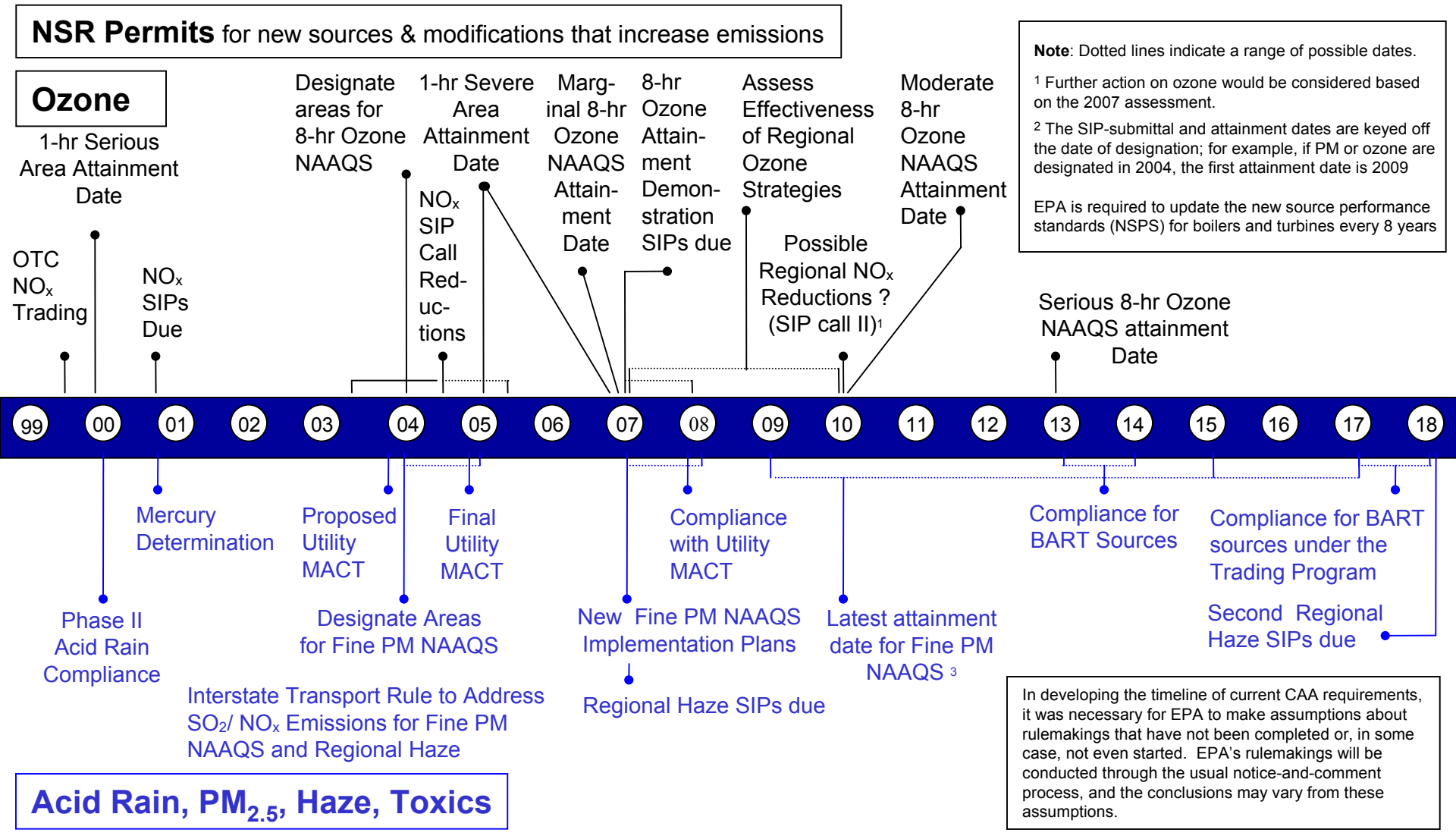
Why Clear Skies?

- **Air quality has improved, but serious concerns persist**
  - North Carolina citizens suffer ill effects from air pollution, including asthma attacks and premature death
  - Statewide efforts, like the Clean Smokestacks Act, cannot reduce emissions from neighboring states
- **Electricity generation sector remains a major emissions source**
  - Very cost-effective to control the power sector, relative to other sources
  - Sources are concerned about upcoming complex and burdensome regulations

Advantages of the Clear Skies Approach

- **Guarantees significant nationwide emissions reductions – beginning years before full implementation**
  - Sources in North Carolina and nearby states would substantially reduce emissions of SO_2, NO_x, and mercury
  - Delivers dramatic progress towards achievement of critical health and environmental goals
- **Uses proven, market-based flexible approach with incentives for innovation**
  - Recognizes environmental needs as well as industry constraints, allowing industry to better manage its operations and finances while lowering risks to the public
  - Sources are projected to install pollution controls to enable continued reliance on coal
- **Increases certainty across the board for industry, regulators, and consumers**

Under Current Clean Air Act Power Plants Would Face a Complex Set of Requirements



Note: Dotted lines indicate a range of possible dates.

[1] Further action on ozone would be considered based on the 2007 assessment.

[2] The SIP-submittal and attainment dates are keyed off the date of designation; for example, if PM or ozone are designated in 2004, the first attainment date is 2009

EPA is required to update the new source performance standards (NSPS) for boilers and turbines every 8 years

In developing the timeline of current CAA requirements, it was necessary for EPA to make assumptions about rulemakings that have not been completed or, in some case, not even started. EPA's rulemakings will be conducted through the usual notice-and-comment process, and the conclusions may vary from these assumptions.

Clear Skies Sets a Firm Timeline for Emission Reductions

The existing Title IV SO_2 cap-and-trade program provides an incentive and a mechanism to begin reductions upon enactment of Clear Skies years before regulatory action under the current Act.

2004: The NO_x SIP call (summertime NOx cap in 19 Eastern States + D.C.) → **2004**

2008: Clear Skies NO_x Phase I (2.1 million ton annual cap assigned to two Zones with trading programs) → **2008**

2010: Clear Skies Hg Phase I (26 ton annual cap with a national trading program) → **2010**

2010: SO_2 Phase I (4.5 million ton annual cap with a national trading program) → **2010**

2018: Clear Skies NO_x Phase II (1.7 million ton annual cap assigned to two Zones with trading programs) → **2018**

2018: Clear Skies Hg Phase II (15 ton annual cap with a national trading program) → **2018**

2018: Clear Skies SO_2 Phase II (3.0 million ton annual cap with a national trading program) → **2018**

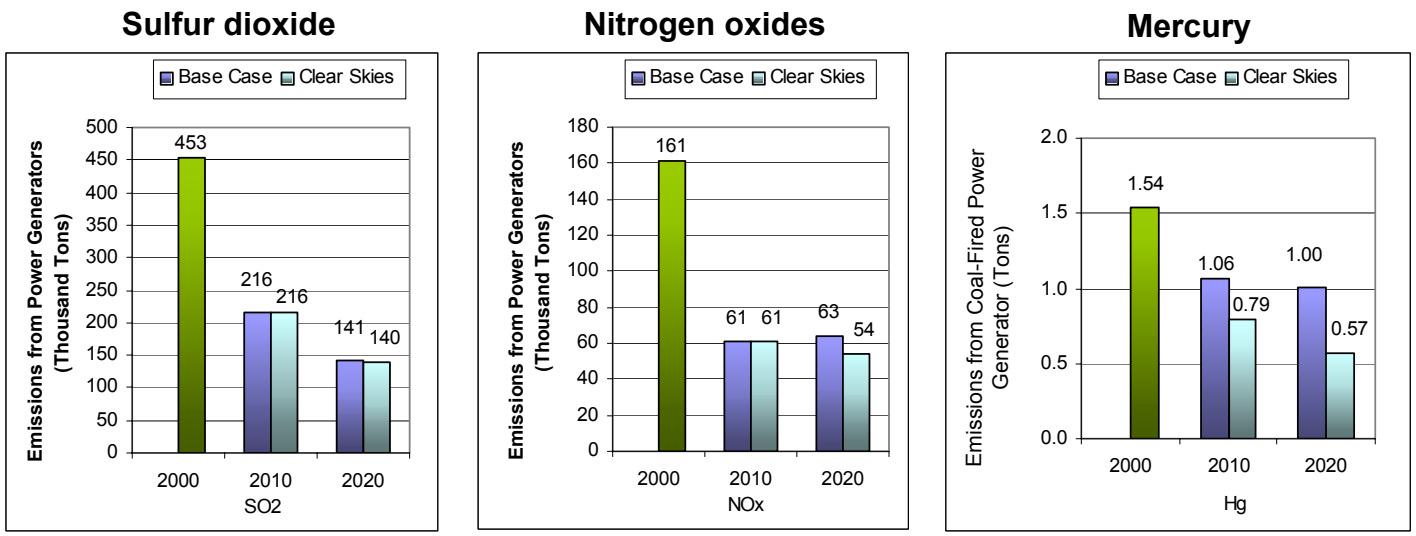
Emissions in North Carolina under Clear Skies

Emissions in North Carolina (2020) would be significantly reduced from 2000 levels by the combined efforts of the Clean Smokestacks Act and Clear Skies:

- 69% reduction in SO_2 emissions
- 67% reduction in NO_x emissions
- 63% reduction in mercury emissions

These reductions are mostly attributable to the Clean Smokestacks Act, with the exception of mercury, which is reduced by another 43% beyond what North Carolina's rule would achieve in 2020.

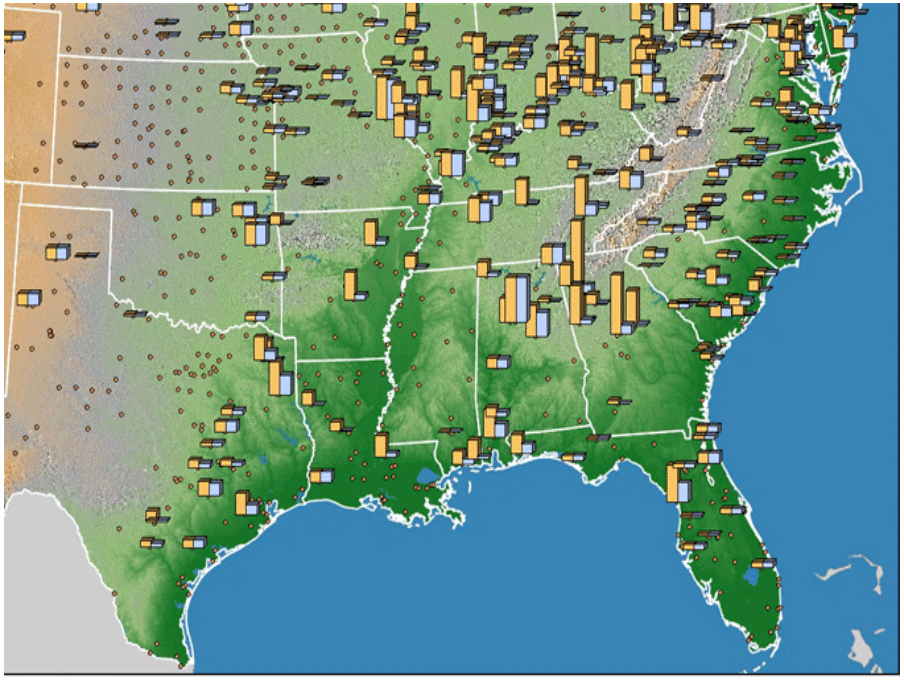
Emissions: Current (2000) and Existing Clean Air Act Regulations (base case*) vs. Clear Skies in North Carolina in 2010 and 2020



Note: The base case in IPM includes Title IV, the NO_x SIP Call, NSR settlements, and state-specific caps in CT, MA, MO, NC, NH, TX, and WI. It does not include mercury MACT in 2007 or any other potential future regulations to implement the current ambient air quality standards or other parts of the Clean Air Act. Base case emissions in 2020 will likely be lower due to state and federal regulatory actions that have not yet been promulgated.

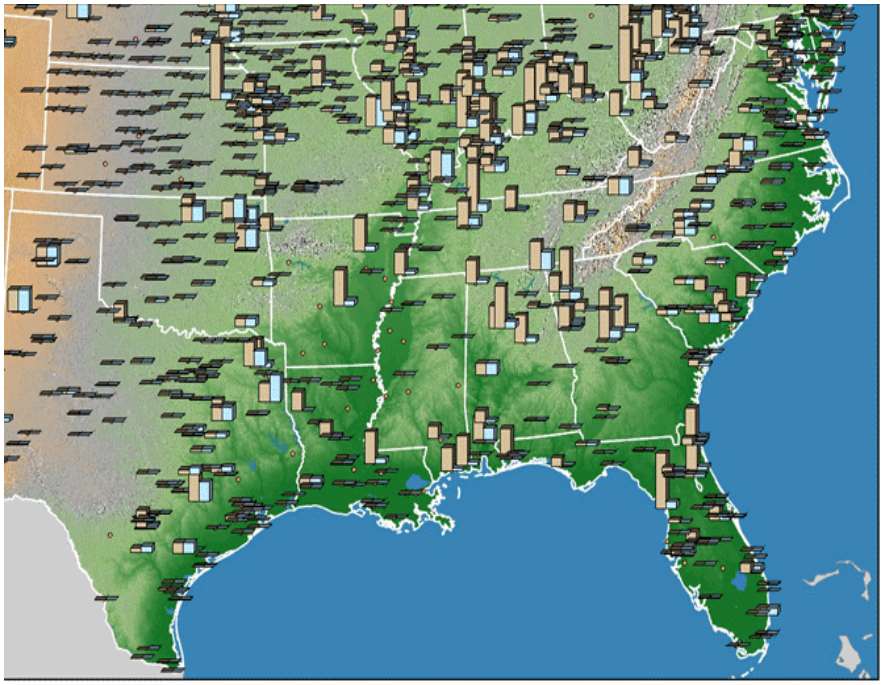
Emission Reductions under Clear Skies

Emissions in North Carolina and surrounding states would decrease considerably. These emission reductions would make it much easier for North Carolina to maintain compliance with the national air quality standards.



Projected SO_2 Emissions from Power Plants with the Base Case and Clear Skies (2020) South

75,000 tons
Base Case Power Plant SO_2
Clear Skies Power Plant SO_2
Fossil Power Plants with Negligible SO_2 Emissions



Projected NO_x Emissions from Power Plants with the Base Case and Clear Skies (2020) South

22,000 tons
Base Case Power Plant NO_x
Clear Skies Power Plant NO_x
Fossil Power Plants with Negligible NO_x Emissions

Note: The base case in IPM includes Title IV, the NOx SIP Call, NSR settlements, and state-specific caps in CT, MA, MO, NC, NH, TX, and WI. It does not include mercury MACT in 2007 or any other potential future regulations to implement the current ambient air quality standards and other parts of the Clean Air Act. Base case emissions in 2020 will likely be lower due to state and federal regulatory actions that have not yet been promulgated. Emissions projected for new units in 2020 are not reflected.

Clear Skies Health Benefits in North Carolina

Improve Public Health

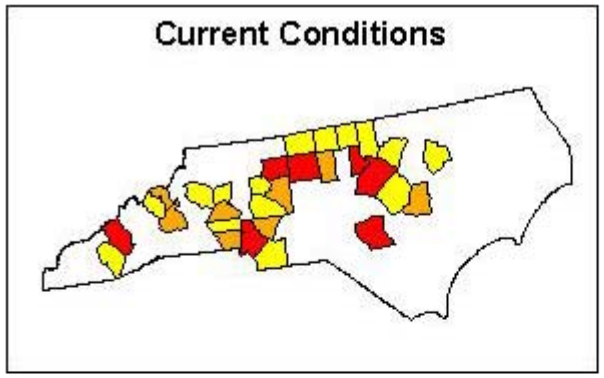
- **Reduced ozone and fine particle exposure** by 2020 would result in public health benefits of:
  - approximately 700 fewer premature deaths each year
  - approximately 500 fewer cases of chronic bronchitis each year
  - approximately 1,000 fewer non-fatal heart attacks each year
  - approximately 1,500 fewer hospital and emergency room visits each year
  - approximately 88,000 fewer days workers are out sick due to respiratory symptoms each year
  - approximately 5,400 fewer school absences each year

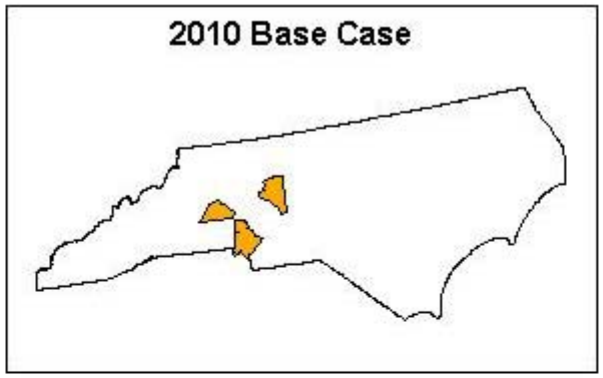
By 2020, North Carolina would receive approximately $5.8 billion in annual health benefits from reductions in fine particle and ozone concentrations alone due to Clear Skies.[1]

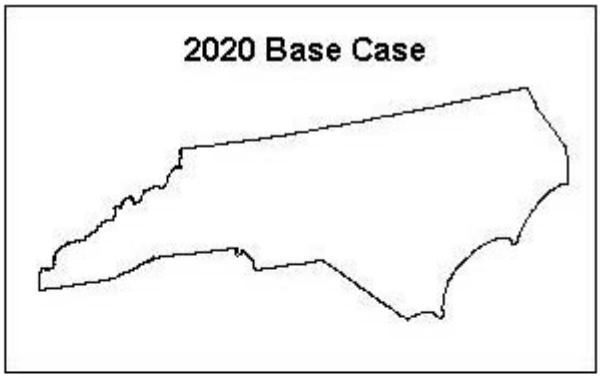
- **Reduced mercury emissions** would reduce exposure to mercury through consumption of contaminated fish, resulting in additional, unquantified benefits for those who eat fish from North Carolina lakes, streams, and coastal waters.

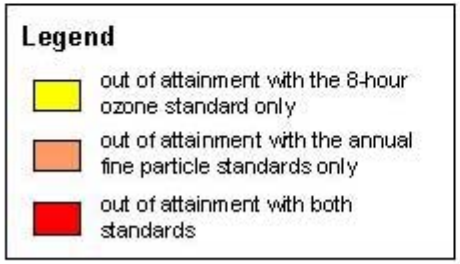
1. An alternative methodology for calculating health-related benefits projects approximately 400 premature deaths prevented and $1 billion in health benefits each year in North Carolina by 2020.

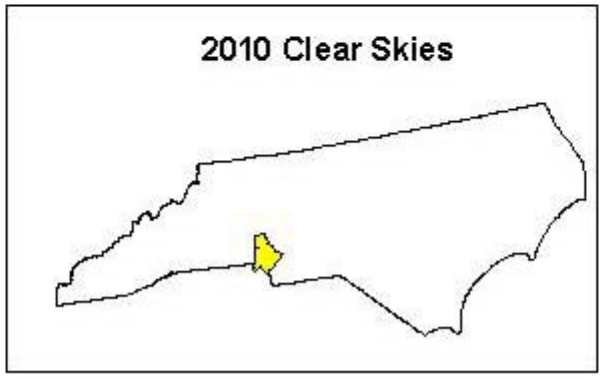
Counties Projected to Remain Out of Attainment with the $PM_{2.5}$ and Ozone Standards in North Carolina

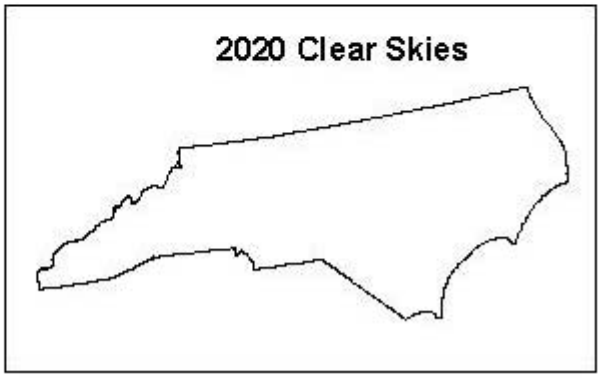












- Catawba, Davidson, and Mecklenburg counties are projected to remain out of attainment with the annual fine particle standard in 2010 with the Base Case but would attain the standard under Clear Skies.
- Mecklenburg County is projected to be *out* of attainment (ozone concentration=85ppb) with the ozone standard with Clear Skies in 2010 but is in attainment by 2020.

Note: Based on 1999-2001 data of counties with monitors that have three years of complete data. The base case includes Title IV, the NOx SIP Call, the Tier II, Heavy-Duty Diesel, and Nonroad Diesel rules, final NSR settlements as of early spring 2003, and state-specific caps in CT, MA, MO, NC, NH, TX, and WI. It does not include mercury MACT or any other potential future regulations to implement the current ambient air quality standards or other parts of the Clean Air Act.

Clear Skies Will Help North Carolina Meet Air Quality Standards

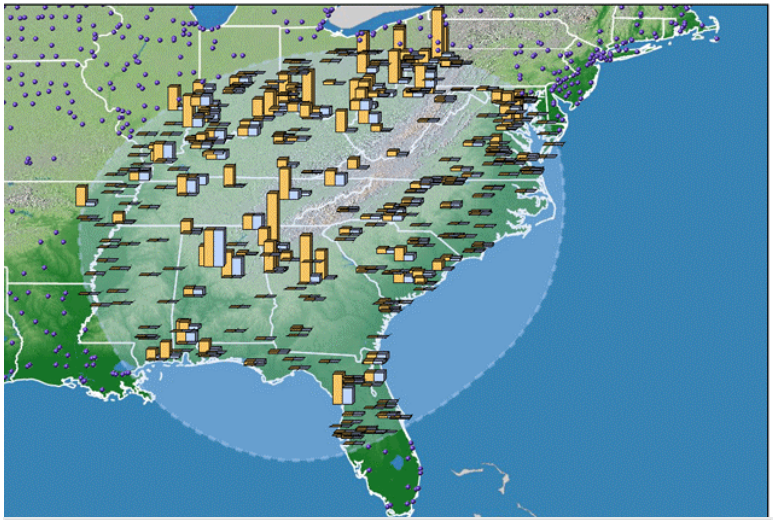
- Currently there are 15 counties exceeding the annual fine particle standard and 22 counties exceeding the 8-hour ozone standard.
  - All of these counties are expected to be brought into attainment with the fine particle standard under existing programs.
  - All of these counties are expected to be brought into attainment with the ozone standard under existing programs.

- **Clear Skies would significantly improve air quality in North Carolina** beyond what is expected from existing programs.
  - By 2010, Clear Skies would bring all 3 remaining non-attainment counties (Catawba, Davidson, and Mecklenburg--population approximately 1 million) into attainment with the annual fine particle standard.
  - By 2020, all counties are projected to be in attainment with both the annual fine particle and 8-hour ozone standard.

- In addition, Clear Skies would reduce ozone and fine particle concentrations in counties throughout the state.

Note: Based on 1999-2001 data of counties with monitors that have three years of complete data.

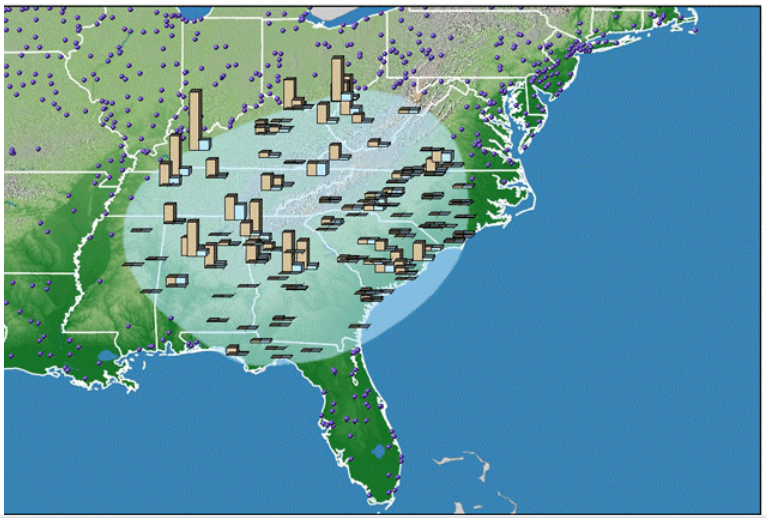
Airsheds for the Southern Blue Ridge Mountains



Projected SO_2 Emissions from Existing Power Generation Sources in the Southern Blue Ridge Airshed in 2020

Base Case | Clear Skies | sulfur airshed

Scale: 75,000 tons | other fossil fuel power plants



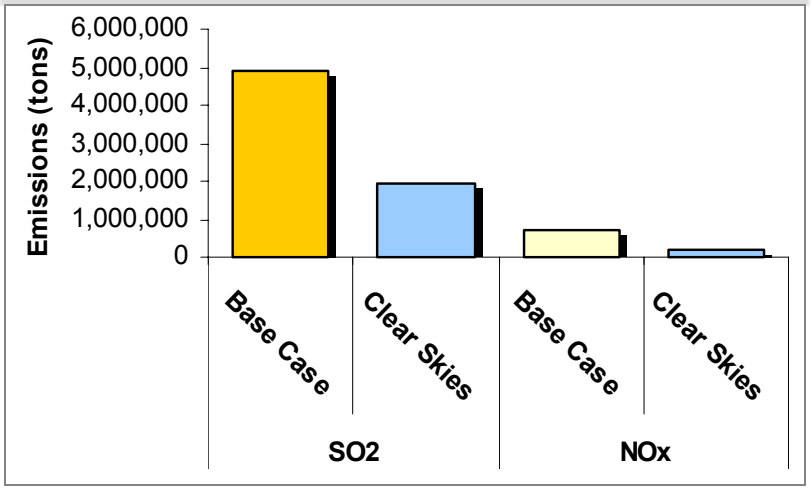
Projected NO_x Emissions from Existing Power Generation Sources in the Southern Blue Ridge Airshed in 2020

Base Case | Clear Skies | nitrogen airshed

Scale: 22,000 tons | other fossil fuel power plants

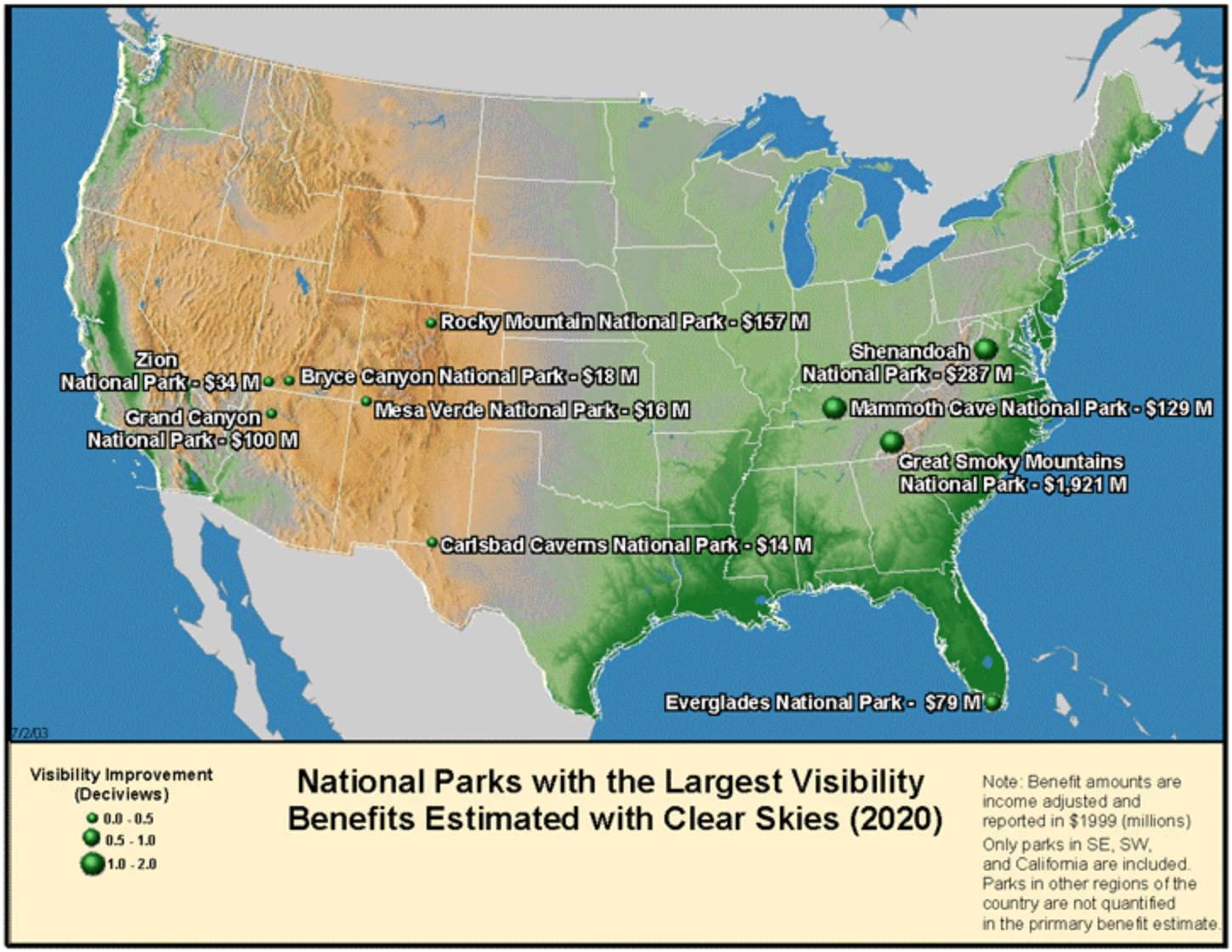
- This page shows regional airshed maps that were developed for the Southern Blue Ridge Mountains (which includes Shenandoah National Park).
- Multiple emission sources in numerous states contribute to air quality degradation and acid deposition in the Southern Blue Ridge region.
- In 2020, emissions from power plants in the Southern Blue Ridge region are projected to be substantially lower with Clear Skies than under the Base Case:
  - SO_2 emissions are projected to decrease 61%;
  - NO_x emissions are projected to decrease 68%.

SO_2 and NO_x Emissions in the Airsheds (2020)



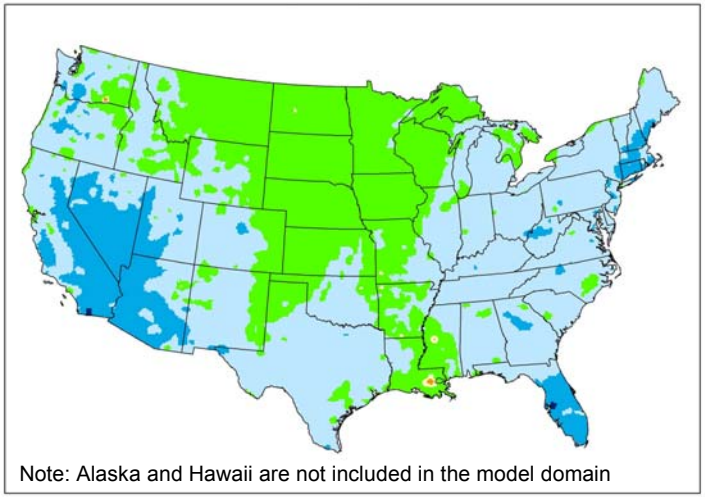
Note: An "airshed" depicts a modeled approximation of a large proportion of sources contributing to air quality in a particular receptor region.

Visibility Benefits in National Parks



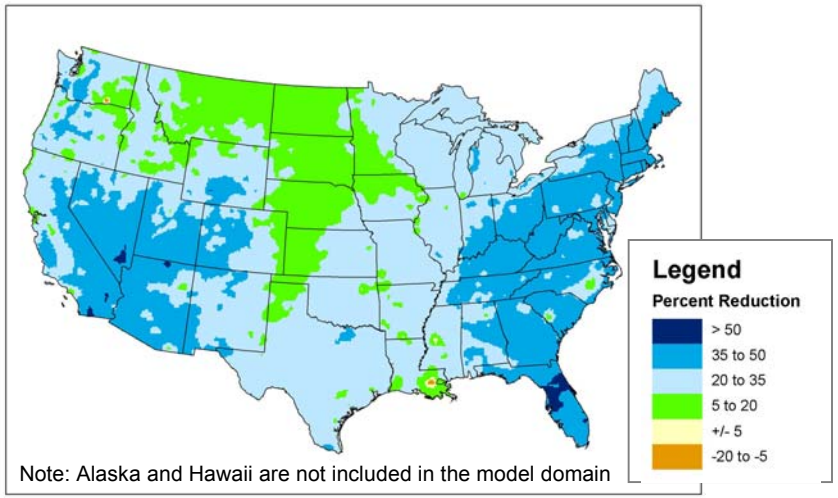
Clear Skies Environmental Benefits in North Carolina

Projected Changes in Nitrogen Deposition with the Base Case in 2020 Compared to 2001



Note: Alaska and Hawaii are not included in the model domain

Projected Changes in Nitrogen Deposition with Clear Skies and the Base Case in 2020 Compared to 2001



Note: Alaska and Hawaii are not included in the model domain

Clear Skies Would Provide Substantial Environmental Benefits in North Carolina

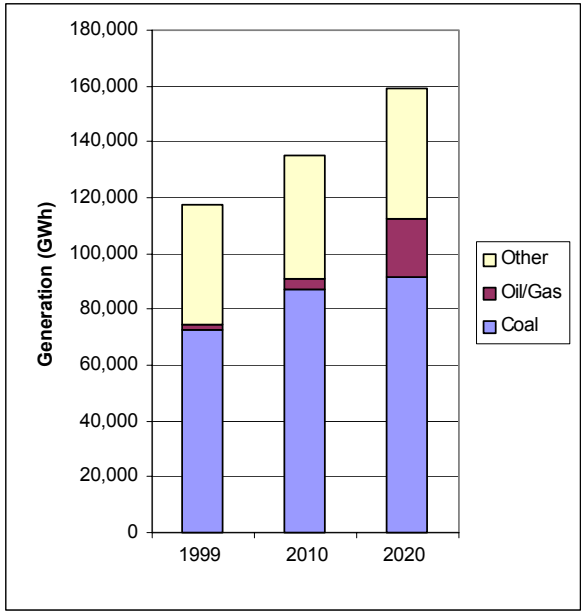
In comparison to existing programs,

- **Visibility would improve** perceptibly.
  - The value of this benefit for great Smoky Mountain National Park is $1.9 billion.
  - The value of improved visibility for various Wilderness Areas in North Carolina (Swanquarter, Shining Rockand Linville Gorge Wilderness Areas) would be millions of dollars.
- **Sulfur deposition, a primary cause of acid rain, would decrease 30-60%** in the Appalachian Mountains of North Carolina.
- **Nitrogen deposition, another significant contributor to acid rain as well as a cause of damage in nitrogen-sensitive forests and coastal waters, would decrease 20%**.
- **Mercury deposition would decrease up to 15%** throughout most of the state.*

* These results are based on modeling the Clear Skies mercury cap without triggering the safety valve.

Electricity Generation in North Carolina under Clear Skies

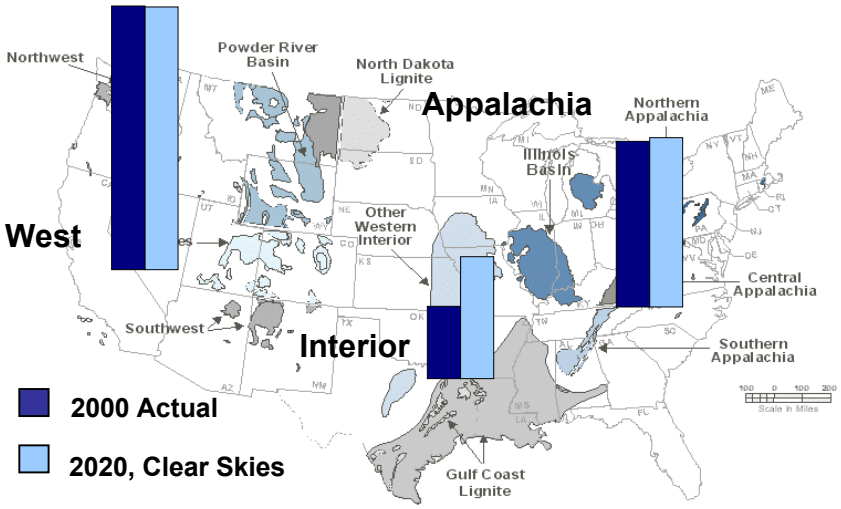
Current and Projected Generation by Fuel Type in North Carolina under Clear Skies (GWh)



- **North Carolina's electricity growth is projected to be met by increases in gas-fired and coal-fired generation. Clear Skies does not significantly alter this projection.**
  - Electricity from coal-fired generation will increase by 26% from 1999 to 2020.

- **North Carolina's sources are projected to reduce their emissions through the installation of emission controls, rather than through a switch from coal to natural gas.**
  - In 2010, 78% of North Carolina's coal-fired generation is projected to come from units with advanced SO_2, NO_x and/or mercury control equipment; in 2020, the percentage is projected to increase to 93%. Most pollution controls are projected to be installed to meet the reductions required under the Clean Smokestacks Act.

Current and Projected Coal Production for Electricity Generation



Scale: Appalachia 2000 = 299 million tons

Emission Controls in North Carolina under Clear Skies

- **Under Clear Skies by 2020...**
  - 10% of coal-fired capacity would install SCR
  - 4% would install scrubbers
  - 1% would install mercury controls

- **The major generation companies in North Carolina include:**
  - Duke Energy Corporation
  - Progressive Energy Carolinas, Inc.
- **Total coal-fired capacity in North Carolina is projected to be 12,694 MW in 2010**

Units in North Carolina Projected to Be Retrofitted Due to Clear Skies by 2020

Plant Name	Unit ID	Technology
BUCK	8	Scrubber/ SCR
BUCK	9	Scrubber/ SCR
G G ALLEN	5	Scrubber/ SCR
MAYO	1A	SCR*
MAYO	1B	SCR*
Westmoreland LG&E Partners Roanoke Valley 1	GEN1	ACI*

* Retrofit was installed under Clear Skies by 2010

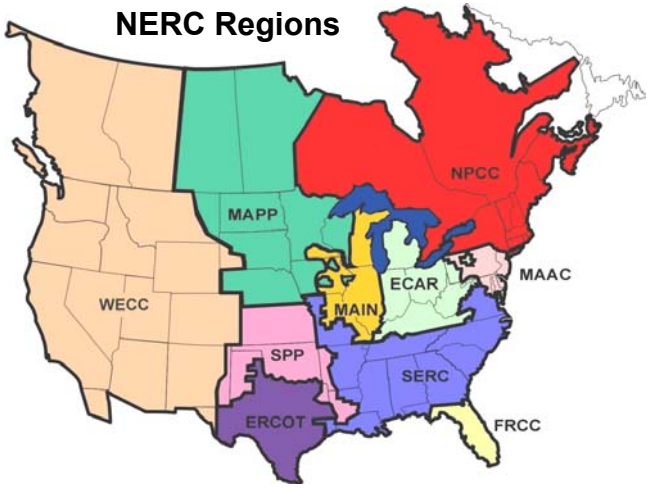
Notes:

[1] Retrofits and total coal-fired capacity apply to coal units greater than 25 MW.

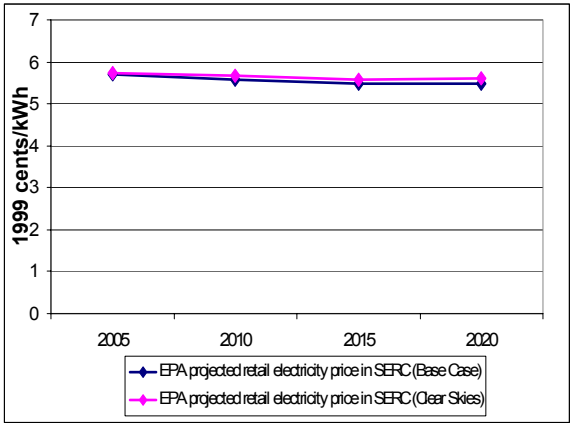
[2] Cliffside units 2 and 3 are projected to be removed from operation by 2005 with Clear Skies due to excess gas-fired capacity in the marketplace, unless otherwise needed for voltage purposes. The recent overbuild of gas-fired generation reduces the need for less efficient units operating at lower capacity factors. These units are inefficient compared to other coal-fired plants and newer gas-fired generation. Less conservative assumptions regarding natural gas prices or electricity demand would create a greater incentive to keep these units operational.

Electricity Prices in North Carolina under Clear Skies

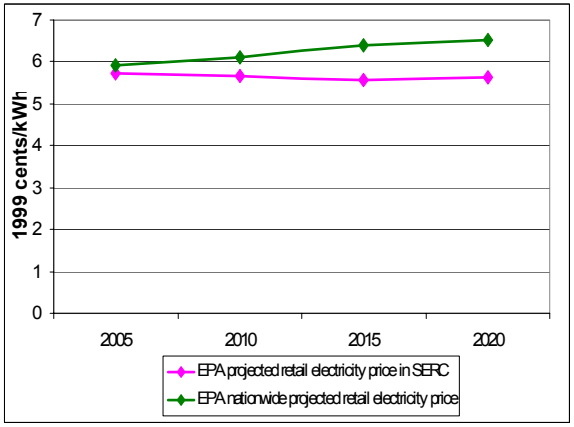
- **With or without Clear Skies, retail prices in the North American Electric Reliability Council (NERC) SERC region (the electricity supply region that contains North Carolina) are projected to decrease between 2005 and 2020.**
- **With Clear Skies, retail prices are projected to be approximately 0.7 – 2.8% higher between 2005 and 2020 than in the absence of the legislation.**



Projected Retail Electricity Prices in North Carolina under the Base Case and Clear Skies (2005-2020)



Projected National Retail Electricity Prices and Prices in North Carolina under Clear Skies (2005-2020)



In 2000, the average retail electricity price in North Carolina was approximately 6.5 cents/kWh, which was below the average *national* retail price of approximately 6.7 cents/kWh.

Note: The base case in IPM includes Title IV, the NO_x SIP Call, NSR settlements, and state-specific caps in CT, MA, MO, NC, NH, TX, and WI. It does not include mercury MACT in 2007 or any other potential future regulations to implement the current ambient air quality standards or other parts of the Clean Air Act. Base case emissions in 2020 will likely be lower due to state and federal regulatory actions that have not yet been promulgated.

Costs and Benefits in North Carolina under Clear Skies

Benefits Outweigh the Costs

- **In North Carolina, Clear Skies is projected to cost approximately $113 million annually by 2020 while providing health benefits totaling approximately $5.8 billion annually. The vast majority of benefits come from emission reductions in neighboring states.**
- **The increases in production costs under Clear Skies represent only a small percentage of total retail electricity sales revenue in North Carolina.**
  - Retail electricity sales revenue in North Carolina was over $7.7 billion in 2000.
  - Adjusting these sales revenues by the same growth rate used for the modeling of costs would result in revenues of almost $11.9 billion annually in 2020.
- **Nationwide, the projected annual costs of Clear Skies (in $1999) are $4.3 billion in 2010 and $6.3 billion in 2020; the nationwide benefits of Clear Skies are expected to be over $113 billion annually by 2020.**
  - An alternate estimate projects annual health benefits totaling $23 billion.

Clear Skies…

- **Guarantees significant emissions reductions – beginning years before full implementation**
- **Uses a proven and flexible market-based approach with incentives for innovation**
- **Increases certainty across the board for industry, regulators, and consumers**

Note: Costs include capital costs, fuel, and other operation and maintenance costs (both fixed and variable) associated with the achievement of the emissions caps in the legislation (for example, the installation and operation of pollution controls). These state-level production costs are estimates; they do not account for the costs associated with the transfer of electricity across regions, nor the costs or savings that could be associated with allowance movement between sources.

Notes on EPA's Analysis

- The information presented in this analysis reflects EPA's modeling of the Clear Skies Act of 2003.
  - EPA has updated this information to reflect modifications:
    - Changes included in the Clear Skies Act of 2003.
    - Revisions to the Base Case to reflect newly promulgated rules at the state and federal level since the initial analysis was undertaken.
  - The Clear Skies modeling results presented include the safety valve feature
- This analysis compares new programs to a Base Case (Existing Control Programs), which is typical when calculating costs and benefits of Agency rulemakings.
  - The Base Case reflects implementation of current control programs only:
    - Does not include yet-to-be developed regulations such as those to implement the National Ambient Air Quality Standards.
  - The EPA Base Case for power sector modeling includes:
    - Title IV, the NO_x SIP Call, NSR settlements, and state-specific caps in Connecticut, Massachusetts, Missouri, New Hampshire, North Carolina, Texas, and Wisconsin finalized before March 2003.
  - For air quality modeling, the Base Case also includes federal and state control programs, as well as the Tier II, Heavy Duty Diesel, and Non-Road Diesel rules.

- **For more information regarding the Clear Skies Act, please visit the EPA website:**

(http://www.epa.gov/clearskies)

CLEAR SKIES
Better Health, Brighter Future